



The Association of
Accountants and
Financial Professionals
in Business

June 21, 2022

Ms. Vanessa A. Countryman, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: The Enhancement and Standardization of Climate-Related Disclosures for Investors - File Number S7-10-22

Dear Ms. Countryman:

The Financial Reporting Committee (FRC or Committee) of the Institute of Management Accountants (IMA) is writing to express its views on the Securities and Exchange Commission's (SEC or Commission) request for public comment on its recently announced climate-related disclosures proposal.

The IMA is a global association representing over 140,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities, and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The FRC includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics, and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals, and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy, Financial Reporting Committee).

Our letter does not address all of the questions in the proposed rule. We have limited our comments on the proposed rule to those issues for which we have some experience.

Implementation Challenges

We believe that many registrants lack robust systems, processes, controls and infrastructure that will be needed to report on costs associated with climate-related events and climate-related transition activities in the financial statements. The data that many registrants report today is collected on an ad hoc basis and the processes for collecting and reporting that data are subject to varying levels of controls that likely would not satisfy the requirements for internal controls over financial reporting under Sarbanes Oxley. Existing financial reporting systems, processes, and controls for financial data have taken many years to develop and at significant cost.



The proposed financial statement climate disclosures will similarly require significant resources, time and cost to obtain and implement data collection systems and develop the necessary processes, controls, and expertise. Committee members have found that third-party systems that have been developed for climate change data collection are not yet fully established and will take time to develop into more accurate and robust vehicles, which is similar to the issues encountered with third-party systems for the new revenue and leases accounting standards.

We observed that the proposal includes a multi-year, phased approach for climate disclosures and assurance. However, the proposal requires full retrospective application at each implementation phase. With the currently proposed effective date, the climate data for 2022 will be included in the first implementation of climate disclosures under the proposal. We understand the general preference for comparable information, but we believe a prospective implementation approach is more feasible and will facilitate a more effective implementation of the proposal. Additionally, we recommend a deferral of at least two years for all registrants, which will better enable them, as well as the various service providers who will assist, to implement the disclosure requirements.

Transition-Related Costs

The proposed amendments to Regulation S-X would require a registrant to report in its financial statements costs it has incurred for climate-related transition activities. However, the proposed rule does not provide guidance on how to determine whether a cost has been incurred for climate-related transition activities.

The Committee believes it may be difficult or impossible for registrants to identify expenditures specifically associated with climate-related transition activities. While certain climate-related transition activities may be clear, such as the investment or construction of solar or wind energy facilities, for many registrants, climate-related transition activities will be incorporated in general business strategies and plans. For example, a registrant may construct a new manufacturing facility to address increased demand. In the construction design, the registrant may incorporate features that minimize the climate-related impact of the new facility. As another example, a registrant may invest in a manufacturing line to drive more automation in the production process but does so as part of replacing manufacturing lines that are close to the end of their useful lives, and the automation also enables a more energy efficient production process. Are the costs incurred in either or both examples associated with climate-related transition activities?

Without additional guidance, it will be difficult for a registrant to design policies and procedures to identify costs associated with climate-related transition activities and will likely lead to inconsistent application by registrants, leading to disclosures that are not comparable. Further, without clarity, registrants will reach different conclusions on whether the investments in such



examples qualify as costs associated with climate-related transition activities. That does not seem a desirable outcome to us. We note that there are many other examples where identifying transition-related costs will be operationally difficult without additional guidance.

If only the additional costs incurred by the registrant above the amount for a like-for-like replacement in the second example qualify as transition-related costs, registrants will need to develop policies and procedures to separate the portion of their investment activities that qualify, which will involve significant estimations and assumptions. This would then require qualitative disclosure around whether the financial estimates and assumptions are impacted by exposures to risks and uncertainties associated with transition risks. Based on these challenges, the Committee recommends these disclosures be provided in the newly created “Climate-Related Disclosure” section or MD&A instead of the financial statements.

Financial Statement Disclosures and Materiality Threshold

The proposed rule would require registrants to disclose, in a footnote to the financial statements, the financial statement impacts of climate-related events and transition activities using a defined threshold of 1% of the related financial statement line item.

If the final rule requires financial statement disclosures, the Committee recommends the Commission change the threshold for disclosure from 1% of the financial statement line item to disclosure if the information is material as defined by the U.S. Supreme Court and that definition does not contain or suggest a bright-line threshold. Additionally, staff guidance in SAB 99 indicates that bright-line thresholds should not be used. The Committee observed that the Commission’s reason for mandating a 1% threshold for incremental disclosure related to the inclusion of excise taxes in revenues. In contrast, the Commission provides a threshold of 10% for determining when separate presentation of classes of revenue is required. The requirement to separately report climate-related events and transition activities based on the 1% threshold included in the proposed rule would require such significant investments in processes and internal controls that it is not realistic for companies to implement within the timeline proposed.

Governance

The proposed rules would require identification of any director with expertise in climate-related risks and the nature of such expertise. We do not believe this level of detail describing an individual’s expertise is necessary given the oversight role of the Board. Additionally, profiles for Board of Directors are included in the proxy and would include any details of specific areas of expertise. Further, the proposed requirement is inconsistent with the proposed rule on cybersecurity, which provides a safe harbor for the named director and makes it clear that the director is not acting as an expert.



Strategy, Business Model and Outlook

The proposed rule requires disclosure of climate-related risks reasonably likely to have a material impact on the registrant over short-, medium-, and long-term time horizons. The Committee recommends time horizons (i.e., short-, medium- and long-term) be defined to increase the usefulness and comparability of disclosures. We agree with allowing flexibility for companies and industries to define time horizons but note that long-term disclosures will be highly speculative and uncertain and may not be useful to investors. In the case of long-term horizons, it may be beneficial for companies to disclose “best” and “worst-case” scenarios.

Greenhouse Gas (“GHG”) Emissions

As noted above, the Committee recommends eliminating the requirement to provide disclosure for years prior to the effective date of the rule. The Committee recognizes having accurate and detailed emissions data enables investors to assess risk, evaluate transition plans, and track alignment with targets. However, given the delay in the availability of quality data, which is often obtained from third parties in calculating Scope 2 and Scope 3 emissions, the Committee recommends amending the requirement to allow registrants to disclose GHG emissions based on the most current, readily available information, including best estimates where applicable, to acknowledge the possibility that such information may be from prior years’ reporting cycles. The proposed rule would permit a “reasonable estimate” for fourth quarter GHG emission disclosures in the absence of current available data as long as the registrant discloses any material differences between the actual versus estimated GHG emission data in its next filing. However, given the timing lag in the availability of data, we believe it may not be feasible for companies to report actual data for Q1-Q3 with estimates for Q4 as proposed given the fact that some registrants experience a 12-month or greater delay in obtaining data from third parties needed to calculate emissions. We further recommend an exemption for IPO registrants from the requirement to provide GHG emissions data at the time of IPO and for a two-to-five year transition period post-IPO to allow time for newly public companies to implement the appropriate processes and system to collect, analyze, and report GHG emissions data. Finally, we recommend the Commission consider allowing companies to report this data on a different cycle to the one used for purposes of preparing the financial statements.

Organizational and operational boundary – We support the Commission’s proposal to require that organizational boundaries be based upon the same set of accounting principles applicable to the registrant’s consolidated financial statements. However, we recommend removing the requirement to pinpoint locations subject to physical risks by zip code. Item 102 of Regulation S-K requires a registrant to identify the location of any properties that are material. We believe the information a registrant provides to comply with that disclosure requirement should also suffice for the disclosure of locations subject to physical risks. As registrants are already obtaining that information, if material, its use for the physical risk disclosure will save registrants the time and expense of providing the zip code of those properties.



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Attestation – We support the Commission’s broad definition of providers of attestation reports to include any independent expert with significant experience in GHG emissions reporting. However, further guidance around the application of the independence rules and compliance considerations is warranted. Accounting firms providing attest services to registrants have developed systems to enable them to identify issues that might impair independence. It would be helpful if the Commission expects the same from non-accounting firms to make that clear in the final rule. Further, given many of the alternative service providers have a corporate form of practice, we believe the Commission should provide guidance on how the independence rules applicable to partnerships apply to those non-partnership entities. Additionally, the Commission should specify which standards are appropriate for firms providing attestation reports. As it relates to attestation requirements, a deferral of at least two years for all registrants as well as the various service providers that will support implementation efforts may result in higher quality implementation and better information resulting therefrom.

Greenhouse Gas Protocol – The requirements around GHG emissions are based on the Greenhouse Gas Protocol. We would recommend the SEC develop processes and procedures that are publicly disclosed regarding evaluating any amendments to the Greenhouse Gas Protocol or emergence of new, more relevant methodologies and the impact on the proposed rules.

International Coordination

Given the global developments around climate-related disclosures, we urge the Commission to continue to work with those standards setters to reduce the likelihood of significant differences developing that create an additional burden on preparers to submit reports with different information. Further, we encourage the Commission to continue monitoring developments to determine if and when there should be a transition to a different, uniform framework to relieve the reporting burdens of multinational corporations.

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We would be pleased to discuss our comments with the Commission or its staff at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Josh Paul".

Josh Paul
Chair-Elect, Financial Reporting Committee
Institute of Management Accountants